

## Message Text

UNCLASSIFIED

PAGE 01 ABU DH 00282 01 OF 02 010956Z  
ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 DOE-11  
SOE-02 /114 W

-----113172 011035Z /10

R 010810Z FEB 78  
FM AMEMBASSY ABU DHABI  
TO SECSTATE WASHDC 7276  
INFO USINT BAGHDDD  
AMCONSUL DHAHRAN  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY MUSCAT  
AMEMBASSY MANAMA  
AMEMBASSY TEHRAN  
AMEMBASSY DOHA

UNCLAS SECTION 1 OF 2 ABU DHABI 0282

E O 11652: NA  
TAGS: EINV, EIND, EFIN, TC  
SUBJ: UAE INVESTMENT CLIMATE

REF: A) 77 STATE 244738; B) 77 ABU DHABI A-046

1. SUMMARY: THE CLIMATE FOR US INVESTMENT IN THE UNITED ARAB EMIRATES (UAE) IS UNUSUAL IN THAT ONE OF SEVEN EMIRATES--ABU DHABI--IS NOT IN NEED OF OUTSIDE INVESTMENT WHILE THE OTHER SIX EMIRATES, IN VARYING DEGREES, ENCOURAGE IT. ALTHOUGH THE POLITICAL CLIMATE IS GENERALLY RECEPTIVE TO FOREIGN INVESTMENT, ECONOMIC REALITIES IN THIS DESERT NATION HAVE NOT ATTRACTED SIGNIFICANT FOREIGN INVESTMENT. HIGH RAW MATERIALS AND LABOR COSTS, LIMITED LOCAL MARKET ABSORPTIVE CAPACITY, ABUNDANT LOCAL CAPITAL, AND PREFERENTIAL TREATMENT OF LOCAL CITIZENS COMBINE TO NARROW THE  
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ABU DH 00282 01 OF 02 010956Z

RANGE OF INVESTMENT POSSIBILITIES IN THE UAE. END SUMMARY.

2. THE UAE, FORMED IN 1971 IS A LOOSE FEDERATION OF SEVEN TRADITIONAL SHAYKHDOMS (FOOTNOTE: ABU DHABI, DUBAI, SHARJAH, AJMAN, UMM-AL-AIWAIN, RAS AL KHAIMAH, AND FUJAIRAH. ONLY THE FIRST THREE CURRENTLY PRODUCE AND EXPORT OIL IN COMMERCIAL QUANTITIES.) ON THE HARSH AND BARREN EASTERN COAST OF THE ARABIAN PENINSULA. THE

FEDERATION DOES NOT HAVE ANY FEDERAL LAW GOVERNING FOREIGN INVESTMENT; SUCH AS DO IMPACT SIGNIFICANTLY ON INVESTMENT ARE AT THE EMIRATE LEVEL. LEGISLATION IN THE EMIRATES IS BASED ON TRADITIONAL ISLAMIC LAW (SHARI'AH) SUPPLEMENTED - ESPECIALLY IN THE COMMERCIAL FIELD - BY REGULATIONS DERIVED FROM CONTEMPORARY ARAB OR WESTERN MODELS. EXISTING LEGISLATION RELATING TO FOREIGN INVESTMENT IS ON THE BASIS OF EMIRI DECREES ISSUED BY EACH EMIRATE RULER FOLLOWING INFORMAL CONSULTATION WITH ADVISERS AND LOCAL NOTABLES. IN GENERAL, THE LESS OIL WEALTH THE EMIRATE POSSESSES, THE MORE INTERESTED IT IS IN ATTRACTING FOREIGN EXPERTISE AND CAPITAL. HOWEVER, ECONOMIC FACTORS AFFECTING FOREIGN INVESTMENT ARE POWERFUL DIS-INCENTIVES TO MOST TRADITIONAL INVESTMENTS. TRAINED HUMAN RESOURCES, ARABLE LAND AND WATER ARE IN VERY SHORT SUPPLY. ABU DHABI EMIRATE POSSESSES SUBSTANTIAL HYDRO-CARBON ENERGY RESOURCES AND ENJOYS A LARGE FINANCIAL SURPLUS; OTHER EMIRATES ARE LESS WELL ENDOWED.

3. THE DOMESTIC ECONOMIC OUTLOOK IS POSITIVE. (SEE ECONOMIC TRENDS REPORT, ABU DHABI AIRGRAM A-046 OF JULY, 1977). THE ECONOMY CONTINUES TO BE FUELED BY CRUDE PETROLEUM EXPORTS, IN 1977 VALUED AT DOLS 9.7 BILLION (OF WHICH DOLS 8.2 BILLION ACCRUED TO ABU DHABI AND DOLS 1.3 BILLION TO DUBAI). THE CREATION OF A DEVELOPED INFRASTRUCTURE (UTILITIES, HOUSING, TRANSPORTATION, ETC.) PROPELS MUCH OF THE LOCAL ECONOMY; HOWEVER, A PAUSE IN THE HEAD-LONG DEVELOPMENT OCCURRED IN 1977 AS EXPECTATIONS OUT-RAN ACHIEVEMENTS. ALTHOUGH ONLY PETROLEUM-RELATED

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ABU DH 00282 01 OF 02 010956Z

INFRASTRUCTURE EXISTED IN THE 1960'S THE UAE HAS MADE CONSIDERABLE STRIDES IN THE PAST FIVE YEARS IN PROVIDING AN ACCEPTABLE LEVEL OF SERVICE IN URBAN CENTERS AS WELL AS EXCELLENT HIGHWAY AND PORT FACILITIES. THERE ARE NOW FOUR INTERNATIONAL AIRPORTS, AND ADDITIONAL BERTHS ARE BEING DEVELOPED AT ABU DHABI, DUBAI, SHARJAH AND RAS AL KHAIMAH IN THE GULF AND KHOR FAKKAN ON THE ARABIAN SEA. TELECOMMUNICATIONS FACILITIES ARE BEING EXPANDED WITH DIRECT DIALING TELEPHONE FACILITIES NOW AVAILABLE TO EUROPE AND THE U.S.

4. REGARDING FINANCIAL INCENTIVES TO FOREIGN INVESTMENT, CUSTOMS AND TAXATION ARE THE RESPONSIBILITIES OF THE INDIVIDUAL EMIRATES AND NO DISCRIMINATORY OR PREFERENTIAL POLICIES TOWARD FOREIGNERS EXIST. CUSTOMS DUTIES VARY THROUGHOUT THE EMIRATES BUT GENERALLY RANGE BETWEEN ZERO AND THREE PERCENT. A CUSTOMS FREE ZONE WILL BE ESTABLISHED AT THE NEW DUBAI INDUSTRIAL AREA PORT OF JEBEL ALI AND ONE MAY ALSO BE CREATED AT THE NEW PORT OF RUWAIS IN THE EMIRATE OF ABU DHABI. THE UAE'S ONLY TAXES ARE CORPORATE TAXES, AT PRESENT LEVIED ONLY ON PETROLEUM PRODUCING COMPANIES AND BANKS. ALL EMIRATES PERMIT FREE REPATRIATION OF PROFITS WITH NO CURRENCY RESTRICTIONS. SINCE THERE IS NO LAW GOVERNING THE FORMATION OF LIMITED LIABILITY COMPANIES, THE ONLY METHOD OF INCORPORATION

ANYWHERE IN THE EMIRATES IS BY SPECIFIC EMIRI DECREE, THE ARRANGEMENTS FOR WHICH WILL VARY ON A CASESBY CASE BASIS.

5. ALTHOUGH NO OVERALL DEVELOPMENT POLICY EXISTS, ALL EMIRATE GOVERNMENTS ARE RECEPTIVE TO FOREIGN INVESTMENT WHICH WILL ASSIST THEM IN LOCAL DEVELOPMENT VIA THE FREE ENTERPRISE SYSTEM. EXPECIALLY DESIRABLE ARE INVESTMENTS TRANSFERRING TECHNOLOGY TO THE UAE. ABU DHABI AND DUBAI, IN PARTICULAR, WISH TO MOVE FORWARD QUICKLY TO CREATE AN INDUSTRIAL INFRASTRUCTURE WHICH WILL REDUCE THEIR LONG-TERM DEPENDENCE ON THE SALE OF CRUDE OIL AND GAS. THIS EFFORT IS FOCUSSED ON HYDRO-CARBON RELATED INDUSTRIES, AND CAPITAL AND ENERGY INTENSIVE INDUSTRIES. THIS TREND IS LIKELY TO CONTINUE DURING THE NEXT TWELVE MONTHS, WITH EXPENDITURE RISING CONSIDERABLY DUE TO LARGE INDUSTRIAL COMPLEXES AND NEW CITIES  
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 ABU DH 00282 01 OF 02 010956Z

PLANNED BY THE ABU DHABI NATIONAL OIL CO. AT RUWAIS AND BY THE GOVERNMENT OF DUBAI AT JEBEL ALI.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 ABU DH 00282 02 OF 02 011028Z  
ACTION NEA-10

INFO OCT-01 ISO-00 SP-02 USIA-15 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 DOE-11  
SOE-02 /114 W

-----113467 011033Z /11

R 010810Z FEB 78  
FM AMEMBASSY ABU DHABI  
TO SECSTATE WASHDC 7277  
INFO USINT BAGHDAD  
AMCONSUL DHAHRAN  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT  
AMEMBASSY MUSCAT  
AMEMBASSY MANAMA  
AMEMBASSY TEHRAN  
AMXMBASSY DOHA 945

UNCLAS SECTION 2 OF 2 ABU DHABI 0282

6. AT PRESENT NO SIGNIFICANT IMPORT SUBSTITUTION EFFORT HAS BEEN UNDERTAKEN NOR ARE THERE ANY EXPORT OR LOCAL MARKET PRODUCTION REQUIREMENTS. (THE UAE'S ESTIMATED POPULATION IN 1976 WAS 862,000). UNTIL RECENTLY MOST PRIVATE INVESTMENT BY UAE CITIZENS HAS BEEN IN REAL ESTATE OR TRADE AND MOST PUBLIC INVESTMENT IN INFRASTRUCTURE. LIGHT AND MEDIUM INDUSTRY, UNLESS GOVERNMENT SUBSIDIZED, MAY NOT BE AN ATTRACTIVE INVESTMENT DUE TO THE SMALL LOCAL MARKET, SIMILAR INDUSTRIAL ASPIRATIONS BY GULF NEIGHBORS, HIGH TARIFF WALLS SURROUNDING NON-ARAB COUNTRIES, LOW UAE TARIFFS AND HIGH LABOR AND RAW MATERIAL COSTS.

7. WHILE GOVERNMENT POLICY ENCOURAGES TECHNOLOGY TRANSFER, THERE ARE NO UAE OR EMIRATE COMMERCIAL CODES, PATENTS, OR TRADE MARKS LEGISLATION, SALE OF GOODS LAW, COMPANIES ACTS, PARTNERSHIP LAWS OR BANKING ORDINANCES. WHERE NO SPECIFIC LEGISLATION

UNCLASSIFIED

PAGE 02 ABU DH 00282 02 OF 02 011028Z

EXISTS, LOCAL USAGE AND CUSTOM APPLY WITH GUIDANCE FROM TRADITIONAL ISLAMIC LAW AND GENERAL PRINCIPLES OF NATURAL JUSTICE AND EQUITY. THE ARAB BOYCOTT OF ISRAEL IS ENFORCED. ALTHOUGH THERE IS NO COPYRIGHT OR PATENTS LEGISLATION AT PRESENT, THE IMPORTANCE OF THIS BRANCH OF COMMERCIAL ACTIVITY IS BECOMING MORE APPRECIATED AND THE COURTS ARE PREPARED TO GIVE PROTECTION, PARTICULARLY IF CLEARLY DRAFTED CAUTIONARY NOTICES HAVE BEEN PUBLISHED IN THE PRESS THROUGHOUT THE AREA. THE GENERAL DOCTRINE OF "UNJUST ENRICHMENT" IS APPLIED.

8. THE UAE LABOR FORCE IS ALMOST ENTIRELY IMMIGRANT AT EVERY LEVEL OF EXPERTISE. THE ESTIMATED 1977 LABOR FORCE NUMBERS 460,000 WITH EGYPTIAN AND LEVANTINE ARABS, EUROPEANS AND AMERICANS WELL REPRESENTED AT THE MANAGERIAL AND SKILLED BLUE-COLLAR LEVEL AND SOUTH ASIANS PREDOMINANT AT THE CLERICAL AND UNSKILLED LEVELS. RECENT UAE CONCERN OVER THE FLOOD OF IMMIGRANTS AND INTERNAL SECURITY HAS TIGHTENED VISA ISSUANCES, ALTHOUGH EMPLOYERS CAN STILL GET VISAS ISSUED TO IMPORT FOREIGN WORKERS. IN-COUNTRY LABOR IS GENERALLY BY LAW TIED TO THE EMPLOYER WHO ARRANGED THEIR VISA; AS A RESULT, NO CASUAL, UNSKILLED LABOR POOL IS AVAILABLE. NO ORGANIZED LABOR MOVEMENT EXISTS AND LABOR STRIFE IS ABSENT. THE HIGH-COST OF LOW-SKILLED LABOR, THE DESIRE TO DAMPEN FUTURE IMMIGRATION, AND THE AVAILABILITY OF LOCAL CAPITAL FOR INVESTMENT ARE LEADING INCREASINGLY TO THE IMPORT OF CAPITAL INTENSIVE TECHNOLOGIES.

9. OWNERSHIP POLICY FOR INVESTMENT OPPORTUNITIES VARIES THROUGH THE EMIRATES. THE GOVERNMENT, PRIVATE INDIVIDUALS AND AN EXTENSIVE BANKING COMMUNITY WITH STRONG INTERNATIONAL LINKS CAN READILY PROVIDE DOMESTIC PRIVATE AND PUBLIC CAPITAL FOR JOINT-VENTURING ON WELL-PLANNED PROJECTS. THE INDIVIDUAL EMIRATE GOVERNMENTS ARE

MAJOR SHAREHOLDERS IN ALMOST EVERY LARGE INDUSTRIAL PROJECT. THE OWNERSHIP STRUCTURE WHICH INVESTMENT MAYYTAKE, HOWEVER, DEPENDS ON UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ABU DH 00282 02 OF 02 011028Z

DIFFERENT EMIRATE POLICIES. FOR EXAMPLE, ONLY UAE CITIZENS MAY OWN LAND IN ABU DHABI OR DUBAI, WHILE ANY ARAB MAY OWN LAND IN SHARJAH OR AJMAN. IN RAS AL KHAIMAH, ANYONE MAY OWN LAND. GENERALLY SPEAKING, ABU DHABI GIVES SIGNIFICANT PREFERENCES TO LOCAL CITIZENS. THE OTHER EMIRATES, ATTEMPTING TO ATTRACT FOREIGN INVESTORS, ARE MORE FLEXIBLE IN PRESENTING INVESTMENT OPPORTUNITIES. IN ABU DHABI, FOR INSTANCE ALL FOREIGN INDIVIDUALS, FIRMS, AND BRANCHES OF FIRMS, EXCEPT THOSE OFFERING ONLY PROFESSIONAL SERVICES (ARCHITECTS, ENGINEERS, CONSULTANTS, ETC.), MUST HAVE A NATIVE-BORN ABU DHABIAN SPONSOR TO OPEN AN OFFICE AND TO DO BUSINESS. FOR TRADING, INDUSTRIAL, AND SERVICE FIRMS, THE SPONSOR RECEIVES A MINIMUM OF 25 PERCENT OF NET PROFITS DERIVED FROM OPERATIONS IN ABU DHABI WITHOUT BEING REQUIRED TO CONTRIBUTE 25 PERCENT OF THE FIRM'S CAPITAL. A LESS RESTRICTIVE SITUATION EXISTS IN DUBAI AND IN MOST OTHER EMIRATES WHERE LOCAL SPONSORS OR AGENTS ARE NOT REQUIRED, ALTHOUGH ON A PRACTICAL BASIS THEY CAN FACILITATE GREATLY ESTABLISHING A BUSINESS OR STARTING-UP A PROJECT.

10. THERE HAS BEEN NO SIGNIFICANT HISTORY OF INVESTMENT DISPUTES RESULTING IN LITIGATION OR ARBITRATION, ALTHOUGH THERE ARE CURRENTLY AT LEAST TWO ON-GOING DISCUSSIONS ABOUT CONTRACTUAL INTERPRETATION BETWEEN EMIRATE GOVERNMENT AND US FIRMS. FOREIGN OIL COMPANIES AGREED AMICABLY TO SURRENDER MAJORITY CONTROL OF GAS AND OIL OWNERSHIP RIGHTS TO EMIRATE GOVERNMENTS IN POST 1973 PERIOD.

11. BECAUSE THERE IS NO US-UAE AGREEMENT AUTHORIZING THEIR FUNCTIONING, OPIC PROGRAMS DO NOT OPERATE IN THE UAE. EXIM ACTIVITY HAS ALSO BEEN SPARSE. THERE ARE NO AVAILABLE PUBLIC ESTIMATES OF DEVELOPED-COUNTRY INVESTMENTS IN THE UAE. THE ONLY SUBSTANTIAL FOREIGN INVESTMENT IN THE COUNTRY IS REPRESENTED BY THE VALUE OF OILFIELD CONCESSIONS AND OILFIELD-RELATED EQUIPMENT.

12. REGARDING FUTURE TRENDS, SOME SLOW PROGRESS MAYBE MADE IN THE COMING SEVERAL YEARS TOWARDS EXPANDING FEDERAL LEGISLATION UNCLASSIFIED

UNCLASSIFIED

PAGE 04 ABU DH 00282 02 OF 02 011028Z

(E.G., OVER LAND SALES TO ALIENS) AND CONTROL OVER THE ECONOMY. THE NEED FOR CLOSER COORDINATION IN INDUSTRIAL AND INFRASTRUCTURED PROJECTS IS RECOGNIZED BUT THE CREATION OF AN EFFECTIVE FEDERAL MECHANISM IS A LONG TERM PROCESS WHICH IS ONLY NOW IN THE FIRST

STAGES. WHILE NO SIGNIFICANT CHANGES ARE EXPECTED IN THE NEAR  
FUTURE ON INVESTMENT POLICIES, LAWS OR REGULATIONS, THE LONG-TERM  
TREND IS TO STRUCTURE OPPORTUNITIES (PERHAPS THROUGH A TAX ON  
FOREIGN-CONTROLLED ENTERPRISES) TO FAVOR LOCAL CITIZENS.  
DICKMAN

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** INVESTMENT CLIMATE  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 01 feb 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978ABUDH00282  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780047-1205  
**Format:** TEL  
**From:** ABU DHABI  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t197802109/aaaadnte.tel  
**Line Count:** 283  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** b87f08ce-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION NEA  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 77 STATE 244738, 77 ABU DHABI A-46  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 14 feb 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3448873  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** UAE INVESTMENT CLIMATE  
**TAGS:** EINV, EIND, EFIN, TC  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/b87f08ce-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014